



Muhibbah Engineering (MUHI MK) : BUY

Mkt. Cap: US\$350m | 3m Avg. Daily Val: US\$0.23m

Last Traded Price (17 Jan 2019): RM2.99

Price Target 12-mth: RM3.55 (19% upside) (Prev RM3.65)

Analyst

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Bintulu Port contract terminated

- Receives notice of termination for Bintulu Port contract
- Contract awarded in April 2017 but work progress has been slow
- Cut FY19-20F earnings by 5-6%
- BUY rating maintained with lower TP of RM3.55

Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	1,397	1,179	1,205	1,325
EBITDA	299	291	302	328
Pre-tax Profit	219	204	213	239
Net Profit	132	143	150	160
Net Pft (Pre Ex.)	132	143	150	160
Net Pft Gth (Pre-ex) (%)	24.7	9.0	4.7	6.8
EPS (sen)	27.3	29.7	31.1	33.3
EPS Pre Ex. (sen)	27.3	29.7	31.1	33.3
EPS Gth Pre Ex (%)	25	9	5	7
Diluted EPS (sen)	27.3	29.7	31.1	33.3
Net DPS (sen)	6.97	5.95	6.23	6.65
BV Per Share (sen)	217	240	265	292
PE (X)	11.0	10.1	9.6	9.0
PE Pre Ex. (X)	11.0	10.1	9.6	9.0
P/Cash Flow (X)	3.1	7.9	15.5	22.7
EV/EBITDA (X)	7.3	7.3	7.1	6.8
Net Div Yield (%)	2.3	2.0	2.1	2.2
P/Book Value (X)	1.4	1.2	1.1	1.0
Net Debt/Equity (X)	0.2	0.1	0.1	0.1
ROAE (%)	13.0	13.0	12.3	12.0

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

What's New

Muhibbah Engineering (MUHI) has announced that its joint venture (JV) company Muhibbah Viccana JV (that it has a 51% equity interest in) has received a contract termination notice from the Bintulu Port Authority on 17 January 2019. The JV is currently in negotiations with the Bintulu Port Authority to seek compensation.

This contract was won in late April 2017 for RM584.8m to build a wharf, jetty and other associated facilities at Bintulu Port, Sarawak.

We understand the termination arose because of the government's concerted efforts to reduce its borrowings to a manageable level and not from any non-performance of the contractor. MUHI's 51% stake in the project is worth an estimated RM298m, c.16% of its outstanding construction order book assuming 20% of work done at Bintulu Port. Work progress at the port has been slow due to some changes in design.

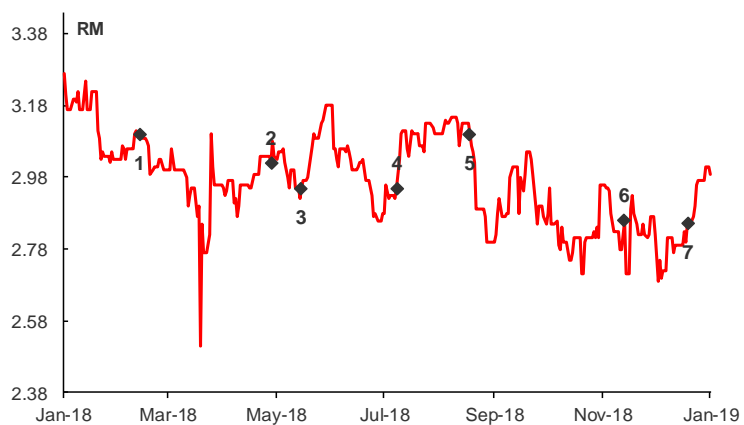
We cut our FY19-20F earnings by 5-6% to account for the loss of the Bintulu Port contract. We make no adjustments for any potential compensation that it is seeking.

We maintain our BUY rating but with a lower TP of RM3.55 to account for a lower sustainable order book in our SOP. While the loss of the Bintulu Port project is certainly bad



news, MUHI's construction division has taken more of a supporting role in the group, given the strong growth of its Cambodian airport concessions which contribute 70% of MUHI's bottom line.

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	01 Mar 18	3.10	3.60	BUY
2:	14 May 18	3.02	3.42	BUY
3:	31 May 18	2.95	3.42	BUY
4:	24 Jul 18	2.95	3.65	BUY
5:	03 Sep 18	3.10	3.65	BUY
6:	29 Nov 18	2.86	3.65	BUY
7:	04 Jan 19	2.85	3.65	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Tjen San CHONG

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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